Shifting gears

• www.sbnonline.com/article/shifting-gears-how-todd-leff-merged-aamco-transmissions-with-its-old-rival-to-create-an-industry-giant/

By: Erik Cassano

For years, Todd Leff watched AAMCO and Cottman conduct a sibling rivalry atop the transmission business.

Formed as one company nearly half a century ago, the business split when the founding partnership fractured in the 1960s. One partner developed AAMCO Transmissions Inc., while two others began Cottman Transmission.

The nationally recognized companies, both based in Greater Philadelphia, operated in each other's shadow for more than 40 years, trying to take a bite out of the other's market share. But slowly, the old guard leadership began to relinquish control, and Leff a Cottman employee since 1990 and the company's CEO since 1997 saw an opportunity.

He wanted to merge the two transmission giants into one supergiant that would dominate the industry.

"After (AAMCO founding partner) Bob Morgan passed away in 2005, I developed a plan and started to think about bringing the two companies back together," Leff says. "I wanted to use the benefits we could have of merging the two organizations together and becoming the dominant player in the transmission business."

Discussions with then-AAMCO CEO Keith Morgan led to more discussions and a plan to forge AAMCO and Cottman into one business that would operate under the AAMCO name.

The merger was finalized in March, and Leff is now president and CEO of the new AAMCO, a company with annual revenue of about $600 million.

Although the companies shared similar cultures, similar product lines and a Philadelphia-area base of operations, merging them has been a complex process, one that Leff says taught him much about the right ways and wrong ways to conduct a merger.

Combining the work force

From the outset of the merger, Leff says it was known that people would lose their jobs. The two companies would be combining their administrative staffs at Cottman's expanded headquarters in Horsham, meaning a staff of 200 employees would need to be pared to 165.

Leff said he strove to be as upfront with employees as possible, informing them about the merger and its impact on them from the very beginning.

"My philosophy is that you have to be straightforward with employees," he says. "Tell them where you're taking the company, what your vision is and what the company is going to look like."

Leff and other AAMCO leaders mapped out a plan for the first 90 days post-merger and shared it with employees from both companies in face-to-face meetings at the headquarters of both. Leff and his staff spoke with senior managers and lower-rung employees, and senior management followed up in additional meetings with employees.

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“We told them about our headcount reduction plan, about our plans to move the headquarters to Horsham, and told them how we were going to develop our brands and what we projected store count to be,” he says. “Our employees have been very aware of where we want to go and how we are going to get there.”

Leff says that during the chaos and swirling rumors that often accompany the announcement of a merger, it is impossible for a CEO to overcommunicate with employees.

“You have to keep telling them every day where you are going to go and how you are going to get there,” he says. “If they get surprises, that’s what hurts the operation.”

Leff said most of AAMCO’s employee reduction was achieved through attrition, which helped ease some employee concerns. Other employees were relocated to other AAMCO centers. The ones the company could not keep received severance packages.

Leff says communicating with employees at corporate headquarters is relatively simple for a CEO willing to take the time. But if you are in AAMCO’s shoes, with 1,100 franchised stores combined under one umbrella, communicating with your troops in the field is decidedly more difficult but every bit as important.

In a franchise retail business, the franchisees are the most direct link to the customers, and what customers see and experience at the store level creates their impression of the company. Because of that, answering the questions and quelling the concerns of franchise owners was extremely important for Leff as the merger was announced.

The first task was to make sure all franchisees heard the news of the merger as close to simultaneously as possible.

“We wanted one single announcement about this,” Leff said. “We didn’t want information coming out ahead of time.”

AAMCO and Cottman launched Web seminars within an hour of each other, which Leff estimates two-thirds of all franchise owners attended. After the merger was finalized, AAMCO sent out a series of newsletters to keep franchise owners updated on the progress of the 90-day merger plan.

Then, as a final step, Leff and other members of AAMCO management hit the road, traveling to 25 cities within the first 90 days.

Leff says that all the other communication methods played an important role in keeping franchise owners informed, but in the end, nothing beats face-to-face communication. Leff says AAMCO leaders met with between 400 ad 500 AAMCO and Cottman franchisees during the tour.

“That’s really how you get out there and communicate with franchisees and put their fears at rest,” he says.

As with employees at corporate headquarters, Leff says the key to communicating with franchise owners is making it a daily priority.

“The message has to be consistent,” he says. “As soon as you change something, it calls into question the message. You have to stay consistent and get everyone on the same page.”

Along with keeping employees and franchisees informed during a merger, a company must also keep them educated. The AAMCO and Cottman operations staffs spent the first 45 days after the merger poring over the training manuals of both companies, trying to splice them into one training book that combined the best practices of both companies.

“All our training staff did for the first 45 days was analyze the two systems and try to come up with a hybrid

that took the best of both systems, and develop that going forward," he says.

Leff said the operations staffs tried not to overcomplicate the process by reinventing the wheel. The combined training manual is essentially the AAMCO book, with modifications from Cottman added.

Brand recognition

Although the transaction is a merger, the Cottman brand will largely be absorbed by AAMCO. Cottman franchisees will be given the option of converting their stores to AAMCO in an effort to increase the profile of the brand.

The reason for tilting the merger toward the AAMCO brand lies in the simple fact that many more people know AAMCO.

"With a 93 percent brand awareness among the public, there are very few markets where they wouldn't have heard of AAMCO, even if they also know the Cottman brand," he says.

Cottman has a brand awareness of about 29 percent nationwide. The brand has more popularity than AAMCO in several markets, such as New Orleans, and is comparable in cities including Philadelphia, Kansas City and St. Louis, but in the top three markets in the country New York, Los Angeles and Chicago there are almost no Cottman centers.

But even with AAMCO vastly surpassing Cottman in terms of brand awareness, Leff says his company can't neglect the fact that there are loyal Cottman customers out there who don't want the brand removed.

That's why AAMCO will continue to embrace the Cottman brand for the foreseeable future, making a brand switch from Cottman to AAMCO voluntary for individual franchises.

"Since customers are the most important aspect of our business, we stress to them that the two brands are going to continue to exist, that their warranties will continue to be in effect," he says. "We tell our customers that the merger is a good thing because we are taking the best technical minds in the business and putting them under one roof."

AAMCO is distributing public relations packages to try to educate longtime Cottman customers on AAMCO, and in the long run, convert them to consumers of the AAMCO brand.

Leff says the key to making a merger a branding success is to ultimately place all operations under one brand, but that won't happen overnight.

"One of the key factors is to get the majority of the two systems operating under one brand," he says. "Then we can finely develop and hone the retail message so that consumers understand the brand, what it's for and where we're headed."

One of the main factors on which Leff will gauge the branding success of the merger is same-store sales. If franchises that convert from Cottman to AAMCO experience an increase in sales, AAMCO's leaders will have a strong indicator that the brand is catching on in those areas.

Due diligence

Leff has a warning for any business leader contemplating a merger: You will step on some toes something that's likely to happen during any significant time of change.

"It's probably the hardest part of the entire process," he says. "I've been at Cottman for 17 years, and a lot of dealers are personal friends. Now I'm taking action on behalf of the company that they believe is not in their individual best interest. You do hurt friendships and relationships."

To get through the trying times of change, Leff says a leader needs a strong sense of conviction in what he or she is doing. And the strongest sense of conviction is rooted in research.

To come to the ultimate conclusion that a merger was best for both AAMCO and Cottman, Leff put together a large due diligence team to research every aspect of both businesses.

He says if you can comb through every aspect of the companies and still come to the conclusion that a merger is a good idea, chances are your intuition is right, no matter what others say.

“We put together a due diligence team that examined every aspect of the AAMCO business and the industry,” Leff says. “We had some industry analysis done by some very high-level research firms. We had a great audit and accounting team. We had a brand marketing consultant examine the AAMCO brand. We brought in people from five or six different disciplines to help us in due diligence.”

But the data trail only leads so far. Even if the research looks great, Leff says the feedback a company receives will paint the best picture of whether a merger is heading toward success or failure.

“You really have to keep your ear to what’s happening in the field,” he says. “That’s why we’ve been traveling to these markets, that’s why our operations team has been talking with franchise owners in the field. You have to keep your eye on statistics and what’s happening to sales, but also to customer reaction.

“I think you really have to have your intelligence working well in the field rather than sitting back at the home office and assuming everything is OK.”

HOW TO REACH: AAMCO, www.aamco.com